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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA – SANTA ANA DIVISION

In re) Case No.: 8:23-bk-10571-SC
THE LITIGATION PRACTICE GROUP, PC,)
Debtor.) Chapter 11

THE LITIGATION PRACTICE GROU, PC,)
Plaintiff,) COMPLAINT OF THE DEBTOR
vs.) SEEKING EXTENSION OF THE
VALIDTAION PARTNERS, LLC; DEBT) AUTOMATIC STAY UNDER 11 U.S.C. §
VALIDATION FUND II, LLC; MC DVI) 362(a) AND FOR INJUNCTIVE RELIEF
FUND 1, LLC; MC DVI FUND 2, LLC; and) PURSUANT TO 11 U.S.C. § 105(a)
ALL SERVICES FINANCIAL, LLC,)
Defendants.)

The above-captioned debtor, The Litigation Practice Group, PC hereinafter referred to as the “Debtor,” pursuant to Federal Rule of Bankruptcy Procedure 7001 and 11 U.S.C. §§ 105(a) and 362(a), brings this Complaint seeking an injunction and/or an extension of the scope of the automatic stay to include: (i) Tony Diab; and (ii) Daniel S.

1 March, (together, the “Non-Debtors”). In support of this complaint, the Debtor avers as
2 follows:

3 1. This is an adversary proceeding commenced by the Debtor, pursuant to
4 sections 105(a) and 362(a) title 11 of the United States Code, 11 U.S.C. §§ 101-1532
5 (as amended, the “Bankruptcy Code”), Rule 7001(7) of the Federal Rules of
6 Bankruptcy Procedure (the “Bankruptcy Rules”), and Rule 65 of the Federal Rules of
7 Civil Procedure (the “Federal Rules”), made applicable hereto by Bankruptcy Rule
8 7065, seeking (i) extension of the automatic stay under 362(a) of the Bankruptcy Code
9 and/or (ii) injunctive relief under section 105(a) of the Bankruptcy Code, to enjoin the
10 above-captioned defendant parties from asserting claims or otherwise attempting to
11 exercise remedies against the Non-Debtors.

12 2. This adversary action presents the requisite unusual circumstances that
13 justify an extension of the automatic stay and demonstrates that the Debtor and the
14 Non-Debtor individuals are entitled to injunctive relief.

15 3. The Plaintiff is The Litigation Practice Group P.C., the Debtor and Debtor
16 in Possession, having commenced a Chapter 11 Bankruptcy proceeding with this Court
17 on March 20, 2023.

18 4. The Debtor remains in possession of its assets and in control of its
19 financial affairs as a Debtor in Possession pursuant to the authority under 11 U.S.C. §§
20 1107 and 1108.

21 5. The Debtor is a California professional law corporation who provides
22 legal services to clients that includes litigating the validity of its clients’ purported
23 debts.

24 6. Non-Debtor Tony Diab is the Office Administrator of Debtor. Mr. Diab is
25 actively involved in the day-to-day decision-making operations of the Debtor and works
26 with the Debtor’s marketing affiliates to procure the Debtor’s advertising.

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1 7. Non-Debtor Daniel S. March is the Managing Partner/Shareholder of the
2 Debtor. Mr. March is actively involved in the day-to-day business operations and
3 decision making for the Debtor.

4 8. Defendant, Validation Partners LLC (“VP”) is a Florida Limited Liability
5 Company.

6 9. Defendant VP initiated an action against Debtor and Non-Debtors in the
7 Superior Court of California, County of Orange, styled Validation Partners, LLC v. The
8 Litigation Practice Group, PC, et al., Case No. 30-2022-01281911 CU-BC-CXC (the
9 “First Litigation”).

10 10. In the First Litigation, Defendant seeks a judgment against Debtor and
11 Non-Debtors in an amount in excess of \$25,000,000.00.

12 11. Defendants, Debt Validation Fund II, LLC (“Debt Validation”), MC DVI
13 Fund 1, LLC (“MC DVI 1”), and MC DVI Fund 2 (“MC DVI 2”), are Wyoming
14 Limited Liability Companies.

15 12. Defendants, Debt Validation, MC DVI 1, and MC DVI 2 initiated an
16 action against the Debtor and Non-Debtors in the Superior Court of California, County
17 of Orange, styled Debt Validation Fund II, LLC, et al. v. The Litigation Practice Group,
18 PC, et al., Case No. 30-2023-01303355-CU-CO-CXC (the “Second Litigation”).

19 13. In the Second Litigation, Defendants seek a judgment against Debtor and
20 Non-Debtors in an amount in excess of \$102,196,145.00.

21 14. Defendant, All Service Financial, LLC (“All Service”) is a Florida
22 Limited Liability Company.

23 15. Defendant All Service initiated an action against the Debtor and Non-
24 Debtors in the Superior Court of California, County of Orange, styled All Service
25 Financial, LLC v. The Litigation Practice Group, PC, et al., Case No. 30-2022-
26 01297683-CU-BC-CJC (the “Third Litigation”).

27 16. In the Third Litigation, Defendant All Service seeks a judgment against
28 Debtor and Non-Debtors in an amount in excess of \$1.3 million.

1 17. It is clear that all Defendants are stayed by section 362(a) of the
2 Bankruptcy Code from attempting to collect pre-petition debts from the Debtor in the
3 First Litigation, Second Litigation, and Third Litigation. The Defendants likewise
4 should be enjoined, under the Bankruptcy Code and the Federal Rules of Civil
5 Procedure, from attempting to collect from the Non-Debtors because such efforts will
6 (i) have the effect of actions against the Debtor itself, (ii) potentially create a situation
7 of diverse and inconsistent rulings of law, and (iii) cause significant interference with,
8 and impairment of, the Debtor's effort to reorganize its financial affairs in
9 contravention of the intent and purposes of the bankruptcy code.

10 18. The relief sought by the Debtor is critical to the Debtor's ability to
11 preserve the assets and value of the Debtor's business enterprise for the benefit of
12 present and future creditors and to eventually implement a plan of reorganization.

13 19. This Court has jurisdiction over this adversary proceeding pursuant to 28
14 U.S.C. § 157(b)(1) and 1334(b) and (e), as this matter arises in, under, and is related to
15 a pending bankruptcy case. This adversary proceeding is a core proceeding pursuant to
16 28 U.S.C. § 157(b)(2)(A), (B), and (O).

17 20. Venue is proper in this district pursuant to 28 U.S.C. §§ 1408 and 1409.

18 21. This adversary proceeding is initiated under Bankruptcy Rule 7001(7), and
19 the relief requested herein may be ordered pursuant to Bankruptcy Rule 7065 and
20 Sections 105(a) and 362(a) of the Bankruptcy Code.

21 22. In the First Litigation, Defendant VP alleges that it arranged financing for
22 the growth of Debtor's practice, as well as direct loans to Debtor, which Debtor is
23 required to repay on set periodic terms. Defendant further alleged that Debtor had
24 ceased and failed to make payments to it.

25 23. In the First Litigation, Defendant VP seeks a judgment against Debtor on
26 the bases of breach of contract, negligence, conversion, Fraud, Promissory Estoppel,
27 Violation of Penal Code 406, Unjust Enrichment, Money Had and Received, Open
28 Book Account, Account Stated, Intentional Interference with Contractual Relations,

1 Accounting, and Declaratory Relief arising out of Debtor's pre-petition business
2 operations.

3 24. In the First Litigation, Defendant VP sought monetary judgments and
4 injunctive relief as to both Debtor and Non-Debtors. Defendant also sought punitive
5 damages and the appointment of a receiver.

6 25. Defendant VP has no direct contractual relationship with Non-Debtors.

7 26. In the Second Litigation, Defendants Debt Validation, MC DVI 1, and MC
8 DVI 2, allege that they purchased files from the Plaintiff with an agreement to receive a
9 return periodically. Defendants further alleged that Debtor had ceased and failed to
10 make payments to it.

11 27. In the Second Litigation, Defendants seek a judgment against Debtor on
12 the bases of breach of contract, anticipatory breach, conversion, Fraud, Unjust
13 Enrichment, Money Had and Received, Open Book Account, Accounting, Intentional
14 Interference with Contractual Relations, Aiding and Abetting Fraud, Void/Fraudulent
15 Transfer, and Accounting.

16 28. In the Second Litigation, Defendants sought monetary judgments and
17 injunctive relief as to both Debtor and Non-Debtors. Defendant also sought punitive
18 damages and the appointment of a receiver.

19 29. Defendants Debt Validation, MC DVI 1, and MC DVI 2 have no direct
20 contractual relationship with Non-Debtors.

21 30. In the Third Litigation, Defendant All Service alleges that it entered into
22 an agreement with Debtor as an affiliate of Debtor to receive proceeds from Debtor's
23 files. Defendant further alleged that Debtor had ceased and failed to make payments on
24 these files.

25 31. In the Third Litigation, Defendant seeks a judgment against Debtor on the
26 bases of Breach of Written Contract, Open Book Account, Account Stated, Common
27 Count – Goods and Service Rendered, Promissory Estoppel, Quantum Meruit,
28 Accounting, and Declaratory Relief.

1 32. In the Third Litigation, Defendant All Service sought monetary judgments
2 as to both Debtor and Non-Debtors.

3 33. Defendant All Service has no direct contractual relationship with Non-
4 Debtors.

5 34. The Debtor indemnifies its employees, agents, Members, Managers, and
6 named officers from claims of liability, including claims such as those made by the
7 Defendants in the Litigation. As a consequence of this indemnification provision, the
8 Debtor has the duty and is responsible for all legal services associated with the defense
9 of the claims made against the Non-debtors, whether they are legitimate or not, and the
10 Debtor would be liable for any judgment against the Non-Debtors.

11 35. Prior to the Petition Date, Debtor had been providing for a defense and
12 attempting to pay all legal costs associated with the claims made under the all the
13 litigation proceedings.

14 36. For these reasons, a judgment against Non-Debtors would effectively be a
15 judgment against Debtor.

16 37. Allowing Defendant to continue to pursue its claims against the Non-
17 Debtors would allow them to indirectly do what the bankruptcy code prohibits them
18 from doing and would place burdensome discovery on a bankrupt company which must
19 be focusing on its critical reorganization efforts.

20 38. The continuing pending litigation against the Non-Debtors is and would be
21 disruptive and detrimental to the Debtor's reorganization efforts because each of the
22 Non-Debtors is critically important to the ability of the Debtor's management to
23 develop its required plan of reorganization. Additionally, if the litigation proceeds
24 without the Debtor participating, the Debtor will likely be collaterally estopped from re-
25 litigating critical factual and legal issues in a proceeding in which it is permitted to
26 participate. When the same or similar issues are appropriately raised and adjudicated in
27 the Bankruptcy Court, there is a substantial likelihood of duplicate or inconsistent
28 rulings, all of which directly impairs substantial justice and due process.

39. Enjoining the Pre-Petition Litigation against the Non-Debtors is essential to the Debtor's ability to reorganize.

40. Enjoining the litigation against the Non-Debtors will not harm the Defendants because they are able and required to pursue all legitimate claims against the Debtor exclusively in the bankruptcy proceeding, and they may pursue the Non-Debtors, if valid claims remain and are unresolved, after the conclusion of the bankruptcy proceedings.

COUNT I
INJUNCTIVE RELIEF UNDER SECTION 362(a)

41. The Debtor repeats the averments contained in paragraphs 1 through 40 above, as if fully set forth herein.

42. Section 362(a)(1) of the Bankruptcy Code operates as a stay, “applicable to all entities,” of “the commencement or continuation . . . of a judicial, administrative, or other action or proceeding against the debtor that was or could have been commenced before the commencement of the case under this title, or to recover a claim against the debtor that arose before the commencement of the case under this title.”

43. Section 362(a)(3) of the Bankruptcy Code operates as a stay, “applicable to all entities,” of “any act to obtain possession of property of the estate or of property from the estate or to exercise control over property of the estate.”

44. As set forth above, unusual circumstances exist that require extension of the automatic stay to the Non-Debtors.

45. Because (i) the Debtor would bear the practical responsibilities of defending each litigation proceeding asserted against the Non-Debtors, (ii) there is such identity between the Debtor and the Non-Debtors that the debtor may be said to be the real party defendant and that a judgment against the Non-Debtors will in effect be a judgement or finding against the Debtor, (iii) the Debtor's officers, and various employees will be required to divert their attention away from the Debtor's

1 reorganization, and (iv) any judgment entered against the Non-Debtors could result in a
2 determination of liability against the debtor, the depletion of assets of the Debtor's
3 estate, or similarly frustrate the purpose of the stay, which is to provide the Debtor with
4 a breathing spell to permit them to attempt to reorganize, free of the pressures of
5 aggressive creditors, the Debtor is entitled to an Order extending the automatic stay
6 under section 362 of the Bankruptcy Code to enjoin the Defendants from proceeding
7 against the Non-Debtors.

8 WHEREFORE, for all of the foregoing reasons, the Debtor respectfully requests
9 entry of an Order extending the automatic stay under section 362 of the Bankruptcy
10 Code to enjoin the Defendants from continuing any action or legal proceeding
11 (including, without limitation, any judicial, quasi-judicial, administrative or regulatory
12 action, proceeding, or process whatsoever), including by way of direct claim,
13 counterclaim, cross claim, appeal, or any other action against the Non-Debtors, and
14 granting other such relief as this Court deems just.

COUNT II

INJUNCTIVE RELIEF UNDER SECTION 105(a)

46. The Debtor repeats the averments contained in paragraphs 1 through 45, as if fully set forth herein.

47. Section 105(a) of the Bankruptcy Code provides that “[t]he court may issue any order, process, or judgment that is necessary or appropriate to carry out the provisions of this title.” Relief under section 105 of the Bankruptcy Code is particularly appropriate in a Chapter 11 case when necessary to protect a debtor’s ability to effectively confirm a plan and to preserve the property of a debtor’s estate.

48. The Debtor is entitled to a preliminary injunction under section 105(a) of the Bankruptcy Code, enjoining the Defendants from proceeding against the Non-Debtors all the litigation proceedings.

49. Unusual circumstances exist demonstrating that the Debtor is entitled to an injunction.

50. In addition to depleting the assets of the estate, continuation of the litigation proceedings will divert the attention and resources of key persons who are critical to the Debtor's ability to successfully reorganize and emerge from Chapter 11.

51. Any harm suffered by the Defendants in delaying their ability to pursue claims against the Non-Debtors is vastly outweighed by the harm that would be suffered by the Debtor in the absence of an injunction.

52. The Debtor is entitled to a preliminary injunction pursuant to Federal Rule of Civil Procedure 65 as: (a) the Debtor has a substantial likelihood of successfully reorganizing, (b) there is a substantial risk of irreparable harm to the Debtor if the automatic stay is not extended, (c) the harm to the Debtor outweighs the potential harm to the Defendants presented by the delay in adjudicating their claims, and (d) injunctive relief would not violate the public interest, but would, instead, promote the likelihood that the Debtor can successfully reorganize.

WHEREFORE, for all the foregoing reasons, the debtors respectfully request entry of an Order granting a preliminary injunction enjoining Defendants from continuing any action or legal proceeding (including, without limitation, any judicial, quasi-judicial, administrative, or regulatory action, proceeding, or process whatsoever), including by way of direct claim, counterclaim, cross claim, appeal, or any other action against the Non-Debtors, and granting such other relief as this Court deems just.

DATED: April 7, 2023

KHANG & KHANG LLP

By: /s/ Joon M. Khang
Joon M. Khang

Attorneys for Debtor and Debtor in Possession
The Litigation Practice Group, PC